

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-10 ISO-00 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08

TRSE-00 PA-04 PRS-01 USIA-15 DRC-01 IO-14 /235 W

----- 090224

R 260445Z MAR 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 1408

INFO USINT ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY RIO DE JANIERO

C O N F I D E N T I A L ABU DHABI 0331

BEIRUT PASS BAGHDAD; KUWAIT PASS DOHA AND MUSCAT; PARIS FOR OECD

EO 11652: ADS (DECON MARCH 23, 1976)

TAGS: ENRG, TC

SUBJ: ABU DHABI OIL AUCTION

REF: ABU DHABI 0211 (NOTAL)

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SUMMARY: IN WAKE OF EMBARGO BEING LIFTED, NATIONAL OIL COMPANY

(ADNOC) HAS DECIDED REOPEN ABU DHABI OIL AUCTION FOR EXTRA PERIOD IN ORDER ALLOW ADDITIONAL INTERESTED US FIRMS TO PARTICIPATE. 45 FIRMS ORIGINALLY SUBMITTED BIDS, OF WHOM ABOUT 10 ARE STILL IN RUNNING. UNDERSTAND HIGHEST BIDDERS TO DATE PLUS ANY NEW FIRMS, WILL BE ASKED TO QUOTE PURCHASE PRICE FOR UP TO 100,000 BPD OF PARTICIPATION CRUDE. IF SALE RE-TENDERED, ADNOC MAY ASK MINIMUM QUOTATION OF POSTED PRICE OR BETTER. BECAUSE ALL BIDS IN FIRST ROUND OF AUCTION WERE IN RANGE OF 60-93 PERCENT OF POSTED, (DOLS 12/12.50) ABU DHABI GOVT CONCLUDED IT STOOD TO LOSE BY INCLUDING 150,000 BPD OF ROYALTY CRUDE IN AUCTION; THEREFORE, ROYALTY RETURNED TO OPERATING COMPANIES FOR MARKETING AT POSTED PRICE. AS FURTHER INDUCEMENT TO BIDDERS TO IMPROVE THEIR OFFERS, ADNOC HAS EXTENDED LENGTH OF SALE PERIOD FROM FOUR TO NINE MONTHS. UNLESS HIGHER AUTHORITIES SHOULD INTRODUCE OVER-RIDING POLITICAL CONSIDERATIONS, ADNOC INTENDS PROCEED WITH PLANS CONCLUDE SEVERAL SMALL PARTICIPATION DEALS. ALL OF SALES TRANSACTIONS, WE TOLD, COULD THEORETICALLY BE WITH SAME GEOGRAPHICAL AREA, IF COMPANIES FROM PARTICULAR AREA HAPPEN TO HAVE SUBMITTED HIGHEST QUOTATIONS. SHOULD SIGNIFICANT PRODUCTION INCREASE NOW TAKE PLACE, OR NEW PARTICIPATION AGREEMENT BE SIGNED, AD WILL HAVE ADDITIONAL QUANTITIES OF NATIONAL OIL AVAILABLE FOR SECOND AUCTION POSSIBLY TO BE ANNOUNCED WITHIN NEXT SEVERAL MONTHS.

1. FROM KNOWLEDGEABLE SOURCES WITHIN ABU DHABI NATIONAL OIL COMPANY (ADNOC) WHICH IS RESPONSIBLE FOR SALES OF AD GOVERNMENT OWNED CRUDE, EMB HAS PIECED TOGETHER STATUS OF AUCTION REPORTED REFTEL.

2. ADNOC SOLICITED BIDS FROM OVER 100 INTERNATIONAL FIRMS OF WHOM ABOUT 45 SUBMITTED FIRM OFFERS. UNDERSTAND PRICES ORIGINALLY OFFERED RANGED FROM ABOUT DOLLARS 7 TO 11.50 PER BARREL, OR 60 TO 93 PER CENT OF POSTED PRICE (PP) FOR THREE GRADES OF AD CRUDE (MURBAN, ZAKUM AND UMM SHAIF). ORIGINAL LIST OF BIDDERS WAS PRUNED TO ABOUT 20 FIRMS, OR THOSE WHO HAD QUOTED AT LEAST 80 PERCENT PP. UNDERSTAND ADNOC SUBSEQUENTLY TELEXED MOST IF NOT ALL OF 20 COMPANIES ADVISING THAT THEY WERE STILL IN CONTENTION, BUT IT WOULD BE NECESSARY FOR ALL FIRMS TO REVISE THEIR BIDS UPWARD TO AT LEAST 93 PERCENT OF POSTED. LEARNED THAT HIGHEST BIDDER WHEN TENDER AUCTION FORMALLY ENDED MARCH 14, WAS CONFIDENTIAL

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ONASSIS FIRM, BUT IT SUBSEQUENTLY WAS DISQUALIFIED FOR FAILURE TO OPEN FIVE PERCENT LETTER OF CREDIT AS REQUIRED IN BIDDING CONDITIONS. AMONG OTHER HIGH BIDDERS WERE WINTERSHALL AND SAARBERGWERK (GERMAN), CHARTER OIL CO. AND PHILLIPS (US), SECURITY RESORNE (ITALIAN), PETROBAS (BRAZILIAN), AT LEAST ONE SWISS FIRM AND SEVERAL JAPANESE COMPANIES INCLUDING IDEMITSU AND SHAWA OIL CO. BRITISH FIRM WILCO SUBMITTED ONE OF HIGHEST BIDS, BUT APPARENTLY HAS BEEN DISQUALIFIED FOR INSISTANCE THAT OIL

SALE SHOULD BE JOINT VENTURE INVOLVING CONSTRUCTION OF EXPORT REFINERY IN ABU DHABI. AS OF MARCH 19, LIST OF 20 FURTHER REDUCED TO 10, AFTER ADNOC BOARD DECIDED NO BIDS UNDER 93 PERCENT OF PP WOULD BE CONSIDERED.

3. FACT THAT NO BIDS HIGHER THAN POSTED WERE RECEIVED CAUSED ADNOC TO DECIDE WITHDRAW APPROXIMATELY 150,000 BPD ROYALTY CRUDE FROM AUCTION. ALL ROYALTY OIL WILL NOW BE MARKETED AS IN PAST BY OPERATING OIL COMPANIES, ADPC AND ADMA. AUCTION, THEREFORE, WILL BE LIMITED TO APPROX 52/100,000 BPD OF PARTICIPATION CRUDE. FROM FIGURES MADE AVAILABLE BY ADNOC SOURCES, UNDERSTAND THAT 7.25 MILLION BARRELS OF POSTED CRUDE WILL BE AVAILABLE TO ADNOC FOR SALE DURING PERIOD APRIL/JULY, 1974. THIS AMOUNT, WHICH EXCESS TO COMMITMENTS ALREADY MADE TO JAPAN LINES (JL), BREAKS DOWN ON DAILY BASIS AS 52,000, 56,000, 52,000 AND 77,500 FOR APRIL THROUGH JULY RESPECTIVELY. WITH DECISION TO REMOVE ROYALTY OIL FROM SALE, ADNOC HAS EXTENDED LENGTH OF SALE PERIOD FROM FOUR TO NINE MONTHS, I.E. FROM APRIL THROUGH DECEMBER, 1974 AS AN ADDED INCENTIVE TO BIDDERS TO IMPROVE THEIR PRICES OFFERS.

4. LATEST FACTOR INFLUENCING AUCTION IS EFFECT OF OAPEC'S DECISION TO LIFT EMBARGO ON US. ADNOC SOURCE TOLD CHARGE THAT LARGE NUMBER OF US FIRMS INCLUDING SEVERAL OF INTERNATIONAL PROMINENCE, REGISTERED EARLY INTEREST IN BUYING ADNOC PARTICIPATION CRUDE, BUT IN END MANY DECLINED TO BID BECAUSE THEY WOULD HAVE BEEN PROHIBITED AS BASIC CONDITION OF SALE FROM MARKETING OIL IN US. THESE FIRMS TOLD ADNOC THAT FRANKLY THEY HAD NO INTEREST IN COMPLICATED OVERSEAS SWITCHING/TRADE-OFF ARRANGEMENTS, BUT WANTED OIL SOLELY FOR US CUSTOMERS. IF THEY COULD HAVE MARKETED IN US, SEVERAL FIRMS INDICATED WILLINGNESS TO PAY PREMIUM PRICES FOR AD OIL. THEREFORE, WITH EMBARGO NOW CONFIDENTIAL

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LIFTED, UNDERSTAND THERE IS STRONG SENTIMENT ON ADNOC BOARD TO REOPEN AUCTION OR AT LEAST DELAY AWARD TO PERMIT EXPANDED NUMBER OF AMERICAN FIRMS TO PARTICIPATE. SOME ADNOC MEMBERS APPARENTLY CONVINCED PARTICIPATION OF MORE US FIRMS WILL PUSH PRICES EVEN HIGHER (MORE KNOWLEDGEABLE ADNOC OFFICIALS RECOGNIZE, HOWEVER, THIS IS IMPROBABLE IN CURRENT MARKET, ESPECIALLY IF LARGE AMOUNTS OF SAUDI OIL SUDDENLY BECOMES AVAILABLE. IN FACT, OUR SOURCES ARE EXPECTING GENERAL PRICE LEVEL TO DROP).

5. AS FAR AS WE KNOW, ADNOC STILL PLANNING TO CONCLUDE SEVERAL SMALL DEALS FOR AVAILABLE OIL UNLESS GOVT SHOULD INTERPOSE POLITICAL CONDITIONS; SOLE DETERMINING FACTOR FOR ADNOC WILL BE PRICE. AT PRESENT TIME, ADNOC HAS NO PREDISPOSITION TO MOVE OIL IN SEVERAL GEOGRAPHICAL DIRECTIONS FOR REASONS OF POLITICAL BALANCING. IT PREPARED TO CONCLUDE NUMBER TRANSACTIONS

WITH DIFFERENT AMERICAN, EUROPEAN OR JAPANESE FIRMS, IF PRICE ANY PARTICULAR COMPANY OFFERS HAPPENS TO BE THE HIGHEST. THUS, IT CONCEIVABLE, AGAIN UNLESS GOVT OVER-RULES ADNOC POLITICALLY, FOR ALL OF SALES TO BE IN ONE GEOGRAPHICAL AREA. WHILE THAT MAY BE OFFICIAL ADNOC POLICY, EMB'S BEST GUESS IS GOVT WILL DISTRIBUTE SALES WORLD-WIDE.

6. EMB'S LATEST INFO IS THAT ADNOC BOARD DECIDED MARCH 24 TO EXTEND AUCTION DEADLINE FOR ADDITIONAL PERIOD TO ALLOW HIGHEST BIDDERS, AND SOME ADDITIONAL US FIRMS, IF LATTER ARE NOW INTERESTED, TO SUBMIT NEW QUOTATIONS. HAVE HEARD ADNOC HOPING GET NEW BIDS EQUALLING POSTED PRICE OR BETTER. ONCE ADNOC DETERMINES SHORT TERM MARKET PRICES FOR AD CRUDE, THEN IT CONSIDERING ANNOUNCEMENT OF SECOND AUCTION SALE WITHIN COMING FEW MONTHS FOR ADDITIONAL PARTICIPATION CRUDE THAT MAY ACCRUE TO ADNOC BY VIRTUE OF EXPANSION CURRENT PRODUCTION LEVEL, OR FROM GREATER EQUITY SHARE IN PRODUCING COMPANIES.
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